



# The New Paradigm of Governance: The Demise of the Imperial CEO

By Rinaldo Brutoco



**Editor's Note:** *The demise of the imperial CEO must rank high among the positive business trends that have emerged in the past few years. This issue of Perspectives draws from prescient remarks on that subject delivered by Academy President Rinaldo Brutoco to the Forum for Corporate Directors in Orange County, California in November 2002.*

*In this and a following issue of Perspectives, Rinaldo will offer a number of substantive suggestions that, if implemented, will go far accelerate this welcome development.*

*While we may for the most part have passed through the veil of shocking misbehavior by CEOs (and acquiescent boards, for that matter), for the foreseeable future no one could argue that we ever have endured an era of imperial directors. Human beings simply don't work together for long in that way. Countless experts have written about the psychology and anthropology of group behavior. Nonetheless, while far from imperious, in the current environment it would appear that independent directors, ascendant as a group, will exert a powerful pull on the CEO toward the direction of responsible, ethical behavior. But this is hardly sufficient. Rather, each individual director and each CEO must find it within himself or herself to surpass minimum legislative requirements. The desire to do the right thing must emanate from inside.*

*In the world of Sarbanes-Oxley, the word "must" implies legislative fiat. That precisely frames the problem. Those directors and CEOs who strive only to hit the minima set by Sarbanes-Oxley surely will fall much sooner than those who aspire to something higher. By hewing close to the line of minimal compliance, they are truly choosing to*



*skate along a knife edge. Sooner or later they will slip and get cut. They never truly intended to do better than the minimum requirement. The intentionality was only in their head, and not in their heart.*

*The aspiration to surpass legal expectations cannot be legislated. So where emanates the motive force behind the word "must"?*

*The impetus to aspire must come from somewhere. If it doesn't come from the hallowed halls of the U.S. Congress, it must come from individuals on the board. That is to say, it is to be found through an examination of what is best in the human spirit. A subset of the findings of the examination, relevant to the Mission of a company, might be called the Values of the corporation. And individuals and groups of people must amplify that aspiration, accelerate its propagation -- indeed its wholehearted acceptance -- throughout society.*

*This is why the work of the Academy is so important. Articles like the one that follows serve not only to inform, but also to invite. Please consider this to be our New Year's invitation to explore not just the spirit of the law, but the spirit behind the law, and thereby become more involved in modeling and advocating "responsibility for the whole."*

**About the author:** A leading international executive, writer and keynote speaker for over twenty-five years, Rinaldo Brutoco is widely recognized as a practical visionary, change agent and futurist. He uniquely combines theory and practice to assist executives and organizations in adapting to change with "breakthrough" ideas.

An accomplished futurist, Rinaldo has served on the board of The Men's Wearhouse, a \$1.3 billion-dollar retail sales New York Stock Exchange company, for over a decade from its initial IPO to the present time. During that same time period, he was CEO and Chairman of the Red Rose Collection, which was named for three consecutive years to *INC Magazine's* 500 fastest growing privately held companies. Among many other distinctions, Red Rose served, for the last twelve years of Mother Teresa's life, as the sole distributor of her personally endorsed biographical motion picture.

He pioneered the concept of Direct Public Offering of stock by selling shares of stock directly to his customers. He also achieved significant legal prominence when, at the age of 25, he became the youngest attorney to argue before the California Supreme Court and won what at the time was the largest class action lawsuit in the history of the United States.

In 1986 Rinaldo founded, and currently serves as President of, the World Business Academy, a collaborative network of mindful individuals collectively exploring the leading edge of business and a pre-eminent publisher of new paradigm business literature. He has also served on numerous non-profit boards including The Gorbachev Foundation, Institute of Transpersonal Psychology, State of the World Forum, the Center for Earth Concerns, Omega Point Institute, and the Brutoco Family Foun-



ation, adding to his ability to transform companies through a multi-disciplinary approach.

On moving to Ojai, California, Rinaldo formed The ShangriLa Consulting Group where he consults as principal on The Leading Edge of Business, International Micro and Macro Economics, Internet and Technology Architecture Strategies, Relationship Building, Enterprise Stakeholdership, Servant Leadership, Technology, Finance and Future Studies.

Rinaldo obtained a degree with highest honors in Economics and Philosophy in 1968 from Santa Clara University and a Juris Doctorate, Order of the Coif, from UCLA School of Law in 1971.

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The Old Testament prophet Isaiah provided us a significant clue about our appropriate roles as directors of corporations when he wrote, "Where there is no vision, the people will perish." The same is true for corporations which legally are "people" under the law. Isaiah could have added that in the absence of "values" the people will perish as well. Both are essential. Where do corporate values and corporate vision come from? Where should they come from? What does the role of a director in the board room have to do with Values and Vision? What does the role of a corporate director fulfilling his or her duties in the board room have to do with Mission and Strategy? These, I submit, are the deeper questions lying beneath the current quest for improved corporate governance.

In fact, I believe that true understanding of the answers to these questions will deliver us from the "thou shalt not" world of Sarbanes-Oxley (based on avoidance of personal liability) into the "thou shalt" world defining the new proactive role for directors. This is what the public is clamoring for. Even better, understanding the role of directors in the context of the answers relating to Values and Vision will actually yield a clearly defined, appropriate demarcation between the role of the board and in setting policy and the role of management to execute it without the board being perceived as "meddling" in the day-to-day affairs of the corporation.

Recently, I came across a statistic that the average tenure of a CEO in Fortune 1000 companies is approximately three years, whereas the average tenure of a director in the Fortune 1000 exceeds 10 years, meaning that a board member's service typically spans the arrival and departure of three or four CEOs. Now think about that.... If the boards of public companies don't set out to definitively understand what the Values and Vision are, how can they determine whom to hire as a CEO to execute that Vision pursuant to those Values? Even more important in this time when corporate ethics are being appropriately questioned, upon what Values is the Vision based? As the Vision is executed through the strategy and tactics of Management, upon what Values ought CEOs rely?

Everyone would agree that a board must have some sort of "vision," a corporate Vision, before they can effectively hire a CEO. Otherwise the board is merely engaging in a lottery in an attempt to find a "super being" or "celebrity" CEO and abdicating their primary fiduciary duties. We all have had enough of that. If boards are unwilling to set the Values and Vision for the corporation, they can hold only themselves collectively responsible for the inevitable excesses of that result (of which we have seen too many). Fortunately, the era of the "celebrity" or "Imperial" CEO is beginning to subside. However we got into this methodology, the days of "leave it to the CEO" to handle everything in imperial fashion finally are over.

What is the purpose of a CEO? In today's world, today's economy, and today's business environment, the CEO really is that person who is supposed to execute, in consultation with the board, the corporate Vision through adoption and implementation of strategies and tactics appropriately based upon the corporation's clearly understood Values. It is my belief that the board holds the ultimate responsibility for determining, promulgating and monitoring



the Values set for each individual corporation. The CEO is supposed to be involved in this process as one clear member of the central corporate governance mechanism (i.e., the board); he or she is not supposed to be solely determining corporate Values. In a similar vein, s/he should be proposing to the board his or her own idea of the best current Vision to hold, but ultimately this should be determined by the board. *A fortiori*, s/he is definitely not executing solely his or her Vision, but rather the corporate Vision. That's the Vision of the "corpus" (which comes from "body" in Latin from which comes the word "corporation"), of the whole body of the organization as determined by the board based upon the corporation's unique Values. It is safe to say that the clearer any organization is about its collective Vision, the more likely the board will hire a CEO capable of appropriately executing it in the world. That, I submit, is what thoughtful observers really want CEOs to do.

If the board isn't clear about its Values, ethical tragedies will occur on a continuing basis as has recently become all too apparent. If the board does not have a clear Vision based upon those Values, what good is hiring a CEO? By definition, s/he won't have a clear enough sense of an executable Vision to be effective—hence the rapid turnover of CEOs referenced at the outset above. If the board is hiring the CEO specifically to assist it in defining a Vision, that is a unique skill set and one which may or not indicate that the proposed CEO will have the skill set to execute the Vision once agreed upon. In fact, very rarely does one find a CEO who can assist to catalyze a board into adopting a collective Vision, who also can lead the corporation in executing that Vision. Without board governance, a typical CEO will come into a typical Fortune 1000 company and, say, "turn it left"; three years later (or less) s/he'll be gone and then somebody else will come in and "turn to the right." Meanwhile, what has happened to the stakeholders of that organization? Obviously, there has to be a transcendent Vision that spans the tenure of one CEO to the next. Otherwise, the corporation will find itself bouncing between transitory objectives like a cork in a bathtub and will have only itself to blame for the lack of forward progress.

Equally clearly, a Vision without Values is a prescription for disaster. The litany of companies without Values to which the CEO was held responsible reads like a "Who's Who" you'd never have expected to see -- Enron, Adelphia, Tyco, Qwest, Anderson, etc. What happened there? Were these inherently evil people who did these things? Certainly some were, but mostly they were not. These were mostly normal, perhaps somewhat greedy, folks who got up in the morning just as you and I do. These are people who didn't understand that without Values it's impossible, on a long-term basis, to successfully execute Vision.

It's impossible; it cannot be done.

When Values are compromised in the pursuit of profit, the Vision will be lost and the stakeholders will suffer. That's an axiomatic truth no one can avoid. Or, as the Roman philosopher Seneca said, "If you don't know the port to which you are sailing, no wind is a good one."

The converse of Seneca's rule is that if you do know the port to which you

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are sailing, every wind is a good wind. If you are a sailor, you know that you can go almost a hundred and eighty degrees into the face of the wind and reach your objective, if you know where you are trying to go. The wind will get you there even if it is blowing in the wrong direction. That's just like what happens in the marketplace. A good sailor knows that she or he can tack against the wind and the wind will still get them safely to their destination. The same is true about a company that has a Vision and Values that will see them through the adversities of the marketplace to arrive safely on the shores of material success because the Vision and Values were not compromised. Seneca's observation relates to the totality of the corporate environment we inhabit today. If you don't know the Vision, you can't get there. And if you don't incorporate the Values in your actions, you won't get there.

Can you imagine any sailing craft anywhere with a crew that is doing whatever they like, whenever they like, and all trying to get rich on the side? What's the point of having Vision without Values? The answer is, there isn't any point, because the Vision can't be executed. The craft will not successfully reach its destination. Period.

SEC Regulation FD and the other recent changes in board accountability and liability have finally motivated us all to rein in our CEOs. That's why the era of the Imperial CEO has ended. As board members, we simply are not willing to stand back and let our CEOs do whatever they want, while we remain liable for the often disastrous results. Not only that, but the public won't let us either. Appropriately, the public is now increasingly holding board members fully accountable for guiding our corporations. What a concept! That's what I think was always intended in corporate law but somehow we forgot in the now-ended era of the Imperial CEO.,

Here is what already has begun to happen: Chief Executive Officers have joined broader society in redefining their role. And that redefinition reflects the conclusion that they are no longer the ultimate seat of all power and the final arbiters of all that is right, just and good for the American corporation. Rather, they are increasingly seen as the executors of a collaborative process. This is a very important statement. Then, the very next question one ought to ask is: who are the collaborators? The answer clearly is the board of directors. That's true in all private companies, all public companies, and all non-profits. And, in fact, that is precisely what was always intended by our corporate form of organization by federal law and the laws of every state since the beginning of the Republic. We simply forgot.

As much as CEOs might not like it (and some did like it), the reality is that the old "total power for the CEO" relationship no longer holds true. Just as surely as the sun really rises in the east and sets in the west, CEOs for the foreseeable future, and probably for the rest of our lives, will never again be imperial.

If we assume that formulation and monitoring an organization's Visions and Values is the appropriate, non-delegatable, role of the board, where does the role of the CEO begin? It starts with the necessity for each CEO to refine and embrace the organization's Mission (not to be confused with Mission Statement, which should be changed very infrequently over long periods of time).



This co-creative process of defining and re-defining Mission with the board provides the CEO with ample opportunity to place his or her personal stamp on the activities that will ensue. If the board has a transcendent Vision and clearly understood Values, the board will have excellent evaluative criteria to use as it selects a CEO who will be required to endorse both. Having been selected because he or she endorsed the Vision and Values, the CEO charged with executing that Vision while utilizing those Values will be the optimal individual to define and redefine the Mission in practical terms every day so that Strategies can be adopted.

Strategy represents the specific individual steps that an organization must take to achieve the implementation of its Vision in the marketplace. From the Vision, the Mission will flow. In determining the Mission, the board acts as the "senior partner" given the board's greater responsibility for the Values and the Vision, with the CEO acting like the "junior partner" in that dialogue. Reciprocally, in the creation of Strategy the CEO plays the role of the "senior partner" in the dialogue, with the board as the "junior" player.

Perhaps the greatest Mission challenge of all time was John Kennedy's commitment to land a man on the moon and bring him back safely before the end of the decade. It needed to be implemented by even more specific steps that comprised the Strategies.

To achieve the Mission, we knew as a society that we would have to increase budgets for education; we would have to create a thing called NASA; we would have to put money into training; we would have to put money into rocketry; we have to put money into basic research; and we would have to take the entire United States of America and turn it into more of a technocracy (which was the hidden agenda all along, to get more kids to enroll in science and engineering).

Kennedy issued the Mission challenge because he correctly perceived that the nation was afraid it was falling behind in the technical sciences. So the Mission was a way to achieve the bigger Vision for who we were as a society, what we were to do in the world, and how we perceived our multi-generational challenges as a free society. We also were very clear about our Values, and about what we thought a free society's Values required. We were afraid that our free society would be compromised, and we felt we had to define these values within the parameters of a free society because if we didn't, the totalitarian society would do it for us. That was a pretty powerful way to experience alignment with our Values.

And so we had a Vision, we had Values, we had our Mission, we developed our Strategies. Fortified and aligned, we did something that no one thought was thinkable, let alone achievable.

It never ceases to amaze me how often in my 30-plus-year business career I have seen that true greatness arises from clarity about Vision, Values, Mission, and Strategy. True greatness is rarely achieved. Very rarely does a corporation become successful when an individual "Imperial" CEO's personal view of the Vision, Values, Mission and Strategy isn't shared by the organization as a whole.

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I've had the good fortune to be a CEO or COO for virtually my entire career. I have started companies, some large and some small, turned other corporations around, served as a consulting "support player" to still other companies, and have enjoyed the entire process immensely. At this stage of my career, however, I find that I actually prefer the role of board member to CEO precisely because I enjoy applying my operating experience to the vital inquiries about Vision, Value, Mission, and their translation with the CEO into Strategy. These activities are the appropriate purview of the board as indicated above.

As I view it, my present contribution to commercial society is to try and take some of this experience and put it back through the board room mechanism into organizations that I care about. Why? Well, go back to that original statistic. If the board members in the average Fortune 1000 company are there three times as long as the CEO, why would we ever expect the CEO to come up with the Vision, the Values, or the starting point for the Mission? To hierarchically rank the board's responsibilities, I submit that a board's first priority is to understand, clarify, articulate, and monitor the implementation of all the organization's Values. Secondly, it is to help understand, clarify, articulate, and monitor the implementation of the Vision. In the absence of clarity on those Values and the Vision, the board will be ineffective in collaborating with the CEO on the truly important work of defining and agreeing to the Mission; nor will the board begin to effectively contribute to the dialogue with the CEO about the Strategy. And, last but not least, in the absence of clear monitoring for the implementation of Strategy consistent with those Values, the board will have abdicated a primary responsibility to all of its stakeholders. Disaster will be the likeliest result.

The imperial CEO concept didn't just come out of the bubble of the last couple of years. It actually came out of the earliest days of corporate behavior in the beginning of the 20th Century. It developed momentum from the Alfred P. Sloan School of Business back in the late 40's or early 50's in conjunction with our experience in World Wars I & II. It came out of our concept, which was not necessarily flawed, of organizing companies like divisions of large armies. People tend to underestimate what the two World Wars did to our collective thinking process in business. If you think back even five to 10 years, you may remember how metaphors were developed to talk about business, and, specifically, the tactics of business were constantly intertwined with military tactics and metaphors. Why? The Sloan School of Management took the hierarchical, top-down, pyramidal structure successfully utilized by the military and built an entire cultural paradigm around that same approach to optimize business processes. Most of the students had just emerged from the military, and that was the only model they had. That approach so colored our thinking process we got lost for a little while. In this kind of a hierarchical structure the person at the top is accorded an imperial role. Then that person tends to seek as board members people who are their friends. That person tends to want to have people who are of common mind and common views, and s/he tends therefore to limit perspective. Would any of us buy a diamond that had only one of its 57 facets? It wouldn't be a diamond; it wouldn't be a valuable jewel. By the same token, I would argue





that a company with such a limited perspective would not be a successful company over time.

At the end of imperial Rome came absolute chaos. That's something for us to remember. Ask yourself if that is not what we are currently facing. I believe in part it is, and that the very fabric of our capital markets is being sorely tested as never before. We are facing chaos. Now, what can we do about it? I believe chaos is a circumstance; I believe our reaction to it is a choice.

In the World Business Academy our basic belief is that the most powerful institution on the planet, without exception, is business. So, if we are the most powerful institution on the planet, if we really are ultimately the only people who can make a difference in the biggest sense of the word, then we can either fall victim to, or rise above the chaos. And I firmly believe that the way we rise above it is to rediscover the collaborative process. In the Academy we call that process a "dialogue."

The dialogue process is based on the assumption that no single one of us has all the answers -- neither "Imperial CEOs," nor any individual human. So if we don't individually have the answers, where do we go to help create the answers? In our era we create them in the collaborative dialogue process found in the corporate world when boards do their jobs properly. Whether it is in the non-profit or for-profit world, the ultimate collaborative discussion occurs at the board of directors.

The philosopher George Santayana said many years ago, "Those who cannot remember the past are condemned to repeat it." So we have a choice: We can see what happens at the end of the demise of an imperial era. It can be chaos; it can be barbarians banging on the door. Or we can choose, having learned that lesson once, to engage in some non-linear thinking and rediscover the power of the collaborative process. By rediscovering that power we create, or more accurately recreate, the new era which transcends the chaos of our times. If we are really good at it, and I think we are adequately "good," we will create a level of financial and material abundance unlike anything the world has ever known. I personally believe that we are standing on the threshold of a period of human prosperity that is 100 times greater than anything we have previously experienced.

The question is how we get there when we are faced not only with terrorism, but also with any number of economic challenges, including the crises in morality among the very corporations that must be the engines of change. The answer I would submit to you is: In the heart of the collaborative process stands the board of directors. The meetings I go to involve a lot of sitting. (We have to do something about that by the way. The more board meetings I go to, the more I know we have to get up and start stretching.) What are we really doing in that collaborative process when we are sitting as directors? What we are trying to do, I think, is to find out what the collective wisdom is that we can give each other for the survival of the tribe. The corporation is a lot like a tribe and we, frankly, are the tribal elders. This is the number one challenge for society: What do we do to get boards to act fully responsible as our tribal elders?

The ultimate interesting question is how do we really begin to think and act

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as the tribal elders of our society? Because if you sit around in council as a tribal elder, you know what it is that you want from a "young buck" war chief. You know what you want from those who would execute policy in your name.

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Try to accept my analogy of this often young, testosterone-driven "young buck" of a war chief who's really ready to run and fight and shoot from the back of a pony, as a present-day CEO. War chiefs generally come and go rather frequently because the passage of time causes a war chief, even a good one, to be replaced by a younger war chief. And in bad times, we bury war chiefs. As you know, we've been doing a lot of that in business the last few years.

What is our opportunity here? Since we live in North America, maybe we can learn something from the people who arrived here before we did. Maybe we can learn something about sustainability in the society that we live in. Maybe we can see the role of that young war chief, that CEO, as someone who executes the policy of a wiser group of individuals who work in collaborative fashion to weigh the best interests of the tribe based on the Values and the Vision of that tribe. That wiser group then works with that CEO/war chief to determine what ought to be the tribe's Mission. That wiser group should then listen co-creatively to the CEO/war chief's conclusions for the Strategies that the tribe should employ for survival.

Every tribe has to have great war chiefs; there is no question about it. But if you don't have a good group of tribal elders, you will not have a tribe that survives, let alone one that prospers. It is impossible. The best war chiefs always knew that they really didn't want to have the last word, because that's not their role. That still is a hard thing for some CEOs today to hear, but that's what's coming now. As the board reasserts its rightful place as tribal elders with unique duties and responsibilities, the end of the Imperial CEO has arrived. Make no mistake, this is not about "meddling" in the day-to-day affairs of the corporation. This is cementing Values and Vision into bedrock, and monitoring for compliance so that Mission and appropriate Strategies can emerge.

Imagine that you became a director and asked yourself, "What am I doing here?" Some of you who do currently sit on boards may still be asking, "Am I just here because I am a friend of the CEO?" or, "Am I here because this looked like an interesting way to spend some time?" or, "Am I here for x, y or z reasons?" If those questions are plaguing you, you probably don't have a clear awareness about this incredibly powerful collaborative role you possess.

There is an interesting statement by Will Durant who together with his wife Ariel wrote the definitive work on Western civilization. About 15 years ago, on the occasion of Will's 90th birthday, he was asked to search his mind through the entire sweep of Western history and characterize the times in which we currently live. He said, "I would characterize the time in which we live as the time when the Buddha came to the West." Now he wasn't making a religious comment. What he was commenting about was the dimension of the inner and the outer, the dimension of the awareness within that creates



the action that's without.

The international business community is in this extraordinarily rare position that challenges, and can change, the face of human society. The challenges have never been greater for any society in the history of humanity. Since I believe there is no institution that can deal with these challenges better than the institution of business, I have concluded that it is time we become responsible for the best outcomes to occur for the whole of society. I believe it is our job in business to now provide a level of leadership that would not have been expected of us if we were merely merchants living in the Middle East a few thousand years ago. This is a time when we really have to embrace the opportunity for collaborative leadership.

Now that is a goal worthy of our best collaborative dialogues within the boardroom chamber. Coincidentally, I believe that very dialogue itself will enliven us, restore the public's faith in our capital markets, and pave the way for the greatest period of global human affluence the world has ever known. Along the way, I believe we will find ways to end malnutrition, unlock the full potential of the hydrogen economy, reverse global warming, restore the environment, and resume the manned exploration of space. All of that and more is possible as we witness the demise of the Imperial CEO and embrace our own emerging role as tribal elders working as directors to insure the sustainability of our individual respective corporate tribes. That collaborative leadership role of the board in business is also the best hope the collective tribe, humanity itself, has for securing sustainable peace and prosperity for future generations.

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